



US food market

Unigrains' opinion on the key events of the quarter

Headline news: Americans more likely to eat at home

Are Americans "French-ising" their consumer habits? An increasing number of Americans now prefer to eat at home, as evidenced by the decline in restaurant traffic since 2015. While the sector has regained revenue growth thanks to an increase in the average ticket, should this be seen as a lasting trend?

The reasons given by consumers for the drop in traffic are primarily economic (eating out costs three times more on average), but also health-related (43% plan to cook more in 2019 in order to eat more healthily) and a desire to spend more time with their families.

That said, speed and convenience are still important criteria, and this trend for home consumption goes hand-in-hand with higher expectations for new solutions: prepared and frozen meals, meal kits (Blue Apron, Hellofresh), grocery home delivery (Peapod, Instacart, Amazon Fresh) and restaurant home delivery (Grubhub, Munchery), as well as take-away and click&collect in restaurants. There are real opportunities for the manufacturers and restaurateurs who successfully adapt and come up with economic, healthy and convenient products.



Anne Dekker, Hospitality Consultant at Hercule Consulting LLC

"The paradox of commercial catering in the US: decrease in restaurant traffic, but rise in revenue"

US restaurants' sales rose again in 2018 and even posted the strongest growth in more than three years in the fourth quarter. But this growth is due to the increase in the average ticket and the boom in home deliveries, which are developing at the expense of meals served on site.

Traffic has been falling steadily since the first quarter of 2015 and doesn't appear to increase again soon. In addition to the fast-expanding offer (products and services) for home consumption, generational movements are also changing demand. Baby boomers are reaching an age where they go out less and have more time to cook. Millennials (people born between 1980 and 2000) now have children and spend less on their outings.

Many restaurateurs first tried to attract more customers with a variety of promotional offers, but without success. Then, in a context of rising labour costs and rents, they had no choice but to increase their prices. They then began to offer home delivery for a few cents more. This has resulted in an increase in the average ticket and a decrease in the number of customers served at the table, as home delivery orders are often for several people. Finally, restaurateurs made big efforts to improve the quality and service offered to their customers and to get them to pay a few more dollars for a special dining experience.

While all macroeconomic indicators in the United States are green, the decline in restaurant traffic now seems to be a lasting trend. The winners in this transformation will be restaurateurs who find a way of adapting to their customers' new expectations while developing a profitable business model.



Fabrice Pasquinelli, Senior Adviser, Unigrains North America

"The meal kits model is still striving to define itself"

The concept of "meal kits" (a basket with all the ingredients needed to prepare a home meal) appeared around 2012 and was immediately popular with American consumers, particularly millennials. Blue Apron, which quickly became the leader in its category, was joined by around forty startups that helped open the market for this new disruptive consumption mode, meeting expectations for convenience, ingredient quality and a desire for innovation. The meal kit market has shown exponential growth for several years (up to +200% per year), which has contributed to its strong media coverage.

Changes in traffic and sales revenue in commercial catering in the US



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A real bubble has formed around this concept, startup valuations (including Blue Apron) have soared, inciting both existing and new entrants to raise capital very aggressively from venture capital and private equity funds.

On 29 June 2017, Blue Apron staged a resounding IPO, becoming the first publicly-traded company in the sector. But analysts soon found Blue Apron's business model to be unprofitable. The stock price started to plummet and today Blue Apron has lost 90% of its original value.

However, the meal kit category is not yet dead: the concept continues to please and new players are developing more profitable "2.0 post-Blue Apron" versions. Retail players are also interested in these concepts, which can enrich their digital offer, and are looking to buy startups (cf. Kroger's acquisition of Home Chef and Albertson's acquisition of Plated). The model is still striving to define itself and the meal kit business must find its place in the global food offering.



Key events of the last quarter

Consumption

Cauliflower: trendiest vegetable in 2018



After kale, Brussels sprouts and avocado, cauliflower is now the most popular vegetable in the United States, as evidenced by two years of strong growth. Cauliflower can be eaten alone, but also as an ingredient. Nielsen has identified its presence in 36 product categories ranging from dry pasta to frozen products.

Cauliflower is driven by the vogue for plant-based products, but also by its nutritional qualities (especially minerals and vitamins) and the many ways in which it can be consumed.

The frozen food market is picking up

After years of decline, the US frozen food market is rebounding. According to Euromonitor, retail sales moved back into positive territory in 2017 (+1% in value) and are set to grow by 3% in 2018 to \$15.5 billion.

This rebound results from significant work on the offer: expansion, modernisation and upgrading (more ready-made meals, greater diversity of recipes, specific diets, health claims, etc.), while remaining more affordable than fresh products. Demand is driven in particular by millennials.

New standard for craft beers



In a stagnant beer market, domestic production has decreased steadily over the past five years, while imports have continued to increase. American consumers are switching from major standard brands to quality imported beers and local craft beers.

Meanwhile craft brewers, whose growth is tending to slow, are seeking to reinvent themselves. In December 2018, the Brewer's Association decided to reconsider the definition of *craft brewer*, introduced in 2006. Until then, a craft brewer was defined as "small" (less than 6 million barrels per year), "independent" (no more than 25% of the capital can be held by a non-craft brewer) and "traditional" (beer production from malt for at least 50% of the volumes). This third criterion is now replaced by "brewer".

This change allows operators whose production is not mainly beer to be categorised as craft brewers, and therefore to be able to offer other alcoholic and fermented drinks such as cider, hard seltzers, sake or kombucha.

Retail

Amazon deploys its Amazon Go concept of checkout-free supermarkets



Amazon is reportedly planning to open up to 3,000 Amazon Go checkout-free supermarkets by 2021 (50 by end-2019); a Bloomberg information, Amazon refrained from commenting. This would represent a considerable investment for the group.

In the meantime, Amazon has launched a more compact version of Amazon Go with retail surface of 450 m² (four times smaller than the original version). The offer is very much focused on lunch breaks and is intended for office districts and indoor facilities (e.g. hospitals). A smaller format that opens up more possibilities in terms of location.



Amazon ends partnership between Whole Foods and Instacart

Not surprisingly, a year and a half after its acquisition by Amazon, Whole Foods announces that it will gradually put an end to the partnership initiated in 2014 with Instacart, a home delivery service competing with Amazon Prime. This process will start in February 2019.

In recent months, Instacart has developed its distributor customer base to reduce its dependence on Whole Foods. In addition, the company has adjusted its prices downwards to align with competitors and raised \$600 million in October (valuing it at \$7.6 billion).

Lidl buys Best Market chain



In addition to Amazon's takeover of Whole Foods, Lidl's arrival on the US market was another highlight of the summer of 2017 in the food retail sector. But while Aldi, another German discounter with a long-standing presence in the US, is ramping up (cf. newsletter no.1), Lidl is struggling to make its mark.

Lidl opened 49 stores in seven East Coast states in 2017, by creating rather than taking over locations, but the results were disappointing. The company put an end to this roll-out in early 2018 and appointed a new CEO in May. The acquisition of Best Market (27 stores in New York and New Jersey) marks a strategic shift.

Agri-food industry

Kellogg is looking to sell its cookies and fruit snacks businesses



The scope of Kellogg's proposed divestiture includes the Keebler, Famous Amos, Murray, Mother's and Stretch Island brands, assets that are weighing on results.

This is a new step in Kellogg's transformation process, initiated in 2017. The group wants to consolidate its core business activities: breakfast cereals, snacks and frozen food.

Kellogg's has also launched a new brand of breakfast cereals, *Hi! Happy Inside*, which include probiotics, prebiotics and fibre. In 2017, Kellogg's also acquired RXBar for \$600 million. The company's line of clean-label protein bars performed very well in 2018.

PepsiCo positions itself in protein bars with Health Warrior



PEPSICO

PepsiCo has long sought to position itself in the attractive protein bar market, as evidenced by the success of RXBar protein bars. The target is a company created in 2011, which markets plant-based protein bars (including chia and pumpkin) and superfoods, GMO- and gluten-free.

It will be the first to join the The Hive programme, created by PepsiCo in August 2018 to accelerate the development of promising brands.

Kraft Heinz acquires healthy condiment manufacturer Primal Kitchen



The group is investing \$200 million in the acquisition of this young company, created in 2015 and positioned in healthy condiments and snacks. The company expects to generate sales of \$50 million for 2018.

Faced with a recurrent decline in its results, Kraft Heinz is seeking to reposition itself in new consumer trends by reformulating its products and acquiring start-ups. The group therefore created its own incubator, Springboard, at the beginning of 2018, which Primal Kitchen will join. In October, it also launched a \$100 million venture fund, Evolv.

Poultry producer Sanderson is moving towards reducing antibiotic use in livestock farming



Sanderson Farms, the third largest poultry producer in the United States, had been very critical of the shift towards "antibiotic-free" adopted by its main competitors, Tyson, the sector leader, Pilgrim's (no.2) and Perdue (no.4).

The group announced at the end of November that, following an internal audit, it had decided to stop the preventive use of two antibiotics of great importance to human health (virginiamycin and gentamicin) on 1 March 2019.

Korean group CJ CheilJedang acquires 80% of frozen food manufacturer Schwan's



Schwan's had been struggling for several years due to the sluggishness of the US frozen food market and had been evaluating strategic options since 2017. This acquisition (\$1.8 billion) is the largest ever made by CJ Group, providing it with an opportunity to enter the US frozen food market and develop a range of Korean products. CJ CheilJedang already had a presence in the US since the acquisition of Kahiki Foods in Aug. 2018.

Another Asian group, Thailand's CP, was identified as a potential buyer after its takeover of US frozen food producer Bellisio in July 2017 for \$1.08 billion. In November, CP finally acquired a far smaller US frozen pizza manufacturer, Frozen Specialties.



Regulation

New California Animal Welfare Act

California has passed a referendum law setting new animal welfare standards. By 2022, all eggs must be produced outside the cage (with a transitional stage to 2020 setting the minimum surface area per hen in the cage at 930 cm² against 750 currently). The minimum surface area is also increased to 4 m² for calves and 2.2 m² for breeding sows.

Each US state can define its own breeding standards and California is the most advanced in this field. As pointed out by Business France, however, the standards governing trade between states are at the federal level, which is a source of dispute with some states.

Withdrawal of authorisation of seven synthetic food flavours

In early October 2018, the FDA withdrew the authorisation to use seven food flavours: benzophenone, ethyl acrylate, eugenyl methyl ether, myrcene, pulegone, pyridine and styrene. Business France specifies that products containing these substances and manufactured by October 2020 will not be considered in violation by the FDA.

Main corporate events of the last quarter

Main transactions involving targets in the United States in the last three months
Transaction value expressed in €m and in EBITDA multiples

| Sector | Date | Deal | Value |
|--------------------|-------------|---|------------------|
| Pastry & bakery | 10/11/2018 | Spanish group Europastry increases its stake in Wenner Bakery from 65% to 100% | n/a |
| | 07/11/2018 | US group Flowers Foods acquires Canyon Bakehouse (gluten-free specialist) | 170 |
| | Oct/Nov. 18 | T. Marzetti (Lancaster Colony Corp.) acquires Omni Baking and Bantam Bagels | 22 - 30 |
| Snacks | 22/11/2018 | Canadian fund Investeco Capital acquires organic snack manufacturer LesserEvil | n/a |
| | 31/10/2018 | PepsiCo acquires Health Warrior (plant-based protein bars) | n/a |
| | 24/10/2018 | US fund Peak Rock acquires snack manufacturer Pretzels | n/a |
| Condiments Oils | 18/12/2018 | Canadian group Richardson buys oil producer Wesson Oils from ConAgra | n/a |
| | Oct/Dec. 18 | Irish group Kerry acquires the North American activities of Southeastern Mills, the US activities of Japan's Ariake, and Fleischmann's Vinegar Company | 169 156 - 350 |
| | 23/11/2018 | Kraft Heinz acquires healthy condiment manufacturer Primal Kitchen | 176 |
| | 06/11/2018 | Stonewall Kitchen acquires Spruce Naturals (oils and vinegars) | n/a |
| | 01/11/2018 | Canadian group Viterra acquires colza oil producer Pacific Coast Canola | n/a |
| Delicatessen | 03/12/2018 | Landec acquires Yucatan Foods , a specialist in avocado-based products | 70 |
| Confectionery | 19/11/2018 | Japanese group Fuji Oil acquires Blommer Chocolate Company | 656 (13.4X) |
| | 16/11/2018 | Investment fund Spell Capital Partners acquires Pearson Candy Company | n/a |
| | 24/10/2018 | US group KNPC Holdco acquires Morley Candy Makers | n/a |
| Frozen products | 29/11/2018 | Thai group CP acquires frozen pizza manufacturer Frozen Specialties | 14 |
| | 15/11/2018 | Korean group CJ CheilJedang acquires 80% of frozen food manufacturer Schwan's | 1,629 |
| Pet food | 18/12/2018 | Belgian group Versele Laga acquires Higgins Group (pet food for birds/small animals) | n/a |
| Milk | 26/10/2018 | Canadian group Saputo acquires cheese distributor F&A Dairy Products | 75 |
| Grains | 03/12/2018 | Easy Bio (South Korea, livestock) acquires DFS Oskaloosa (grains and animal feed) | n/a |
| Diversified | 15/10/2018 | Hearthside Food Solutions (US) acquires the US activities of Ireland's Greencore | 929 |
| | 11/10/2018 | Irish dairy group Glanbia acquires Slimfast (meal replacements) | 300 |

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